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FEATURED Q&A

Do the Peronists Have a Good Plan for Argentina?



Argentina's new president, Alberto Fernández, last month announced a new "social pact" to boost the country's economy. // File Photo: Argentine Government.

QJust weeks after taking office as Argentina's new president, Alberto Fernández announced that his government had reached a "social pact" with businesses and trade unions in order to revive the nation's economy. The pact is expected to include higher wages, fixed prices and an expanded money supply. How would Fernández's plan affect economic growth? Will social unrest break out if results don't materialize soon? How strong is support from businesses and labor unions for the social pact's agenda?

ARodrigo López, economist and sociologist at the Scalabrini Ortiz Center for Economic and Social Studies in Buenos Aires: "After the failure of neoliberal policies led Argentina to economic stagnation, annual inflation of 54 percent and an external debt crisis, Macri applied a partial default and imposed exchange rate controls. Alberto Fernández has resumed Argentina's version of the social pact. It is not an Anglo-Saxon contract—as in Hobbes or Locke—and it is not a pact between individuals, nor even between political parties. Rather, it resumes the Peronist tradition of having the state call on representatives of capital and labor—a corporatism that at least is well known in the country. The plan has as a priority the national economy's recovery. It will be easy. Industry has a large idle capacity; it just needs a push in terms of aggregate demand. The package represents \$1.6 billion injected into the most vulnerable sectors. For its part, the middle class cannot hide the neoliberal model's economic failure and has no choice but to wait. The same can be said of business chambers and unions, those who do sit at the table of the social pact. Both parties

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TODAY'S NEWS

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Buenos Aires Bonds Fall as Gov't Rejects Helping With Payment

Argentina's economy minister said the government would not help Buenos Aires province make a \$250 million bond payment due at the end of this month.

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Chile Regulator Charges ENAP

The country's environmental regulator charges state oil company ENAP with improper fracking in Tierra del Fuego.

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U.S. Treasury Sanctions Seven Venezuelans

The United States slapped sanctions on seven Venezuelan officials following a chaotic scene that erupted Jan. 5 at the National Assembly when government forces prevented opposition members from entering and pro-government politicians swore in Luis Parra as the Assembly's leader.

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Parra // File Photo: Venezuelan Government.

POLITICAL NEWS

U.S. Sanctions Seven Venezuelan Officials After Assembly Chaos

The Trump administration on Tuesday sanctioned seven Venezuelan government officials whom it said were involved in the chaos that erupted Jan. 5 at Venezuela's National Assembly building as government troops and other supporters of President Nicolás Maduro blocked National Assembly President Juan Guaidó and other opposition members from entering the building. Among those sanctioned is Luis Parra, whom Maduro loyalists swore in that day as the National Assembly's leader despite the lack of a quorum. "Treasury has designated seven corrupt National Assembly officials who, at the bidding of Maduro, attempted to block the democratic process in Venezuela," U.S. Treasury Secretary Steven Mnuchin said in a statement. "These and other designated officials can have sanctions removed if they side with the people of Venezuela and Juan Guaidó as their legitimate leader." The United States and dozens of other countries recognize Guaidó as Venezuela's legitimate interim president, following Maduro's disputed re-election in 2018. The Treasury Department called Parra the leader of an effort to "undermine the elections process in the National Assembly," adding that Parra "continues to obstruct the proceedings of the National Assembly." In a statement, Parra said punitive actions by the United States are harming his efforts to overcome political polarization in the South American country, The Wall Street Journal reported. "It is unacceptable that foreign countries try to condition the behavior of our parliamentarians," he said. The new round of sanctions freezes any assets that the officials have in the United States, blocks them from traveling to the United States and bars any U.S.-based entity from doing business with them. The standoff on Jan. 5 at the National Assembly appeared to be an attempt by Maduro to strip legitimacy from Guaidó, who was up for re-election that day as the National Assembly's leader. Government security forces

physically blocked Guaidó and other opposition members from entering the National Assembly building, at one point leading Guaidó to attempt to climb over a fence in a failed effort to get inside. Opposition members, who make up the majority of the National Assembly, later re-elected Guaidó the body's leader in a session held at an opposition newspaper office and then pushed their way into the National Assembly two days later to swear him in there. [Editor's note: See related [Q&A](#) in the Jan. 7 issue of the Advisor.]

ECONOMIC NEWS

Buenos Aires Bonds Fall as Gov't Rejects Aiding With Payment

Comments by Argentine Economy Minister Martín Guzmán prompted a sharp fall in bonds issued by the province of Buenos Aires on Monday, a day after Guzmán said the national government would not help the province finance a big debt payment due at the end of



Guzmán // File Photo: Argentine Government.

the month, the Financial Times reported. Debt backed by the province set to mature in 2021 fell more than 10 percent to 62 cents on the dollar. Another bond maturing in 2027 dropped nearly 3 percent to 44 cents, as government debt prices also experienced volatility. Guzmán told local newspaper Clarín on Sunday that the government would not help the state make a \$250 million payment by Jan. 26. Separately, Buenos Aires province owes an additional \$321 million to other creditors holding dollar-denominated debt and local-law notes. Analysts are

NEWS BRIEFS

Giammattei to Take Office Today in Guatemala

Guatemala will swear in Alejandro Giammattei as the country's president today, as outgoing President Jimmy Morales exits amid corruption accusations, the Associated Press reported. A conservative physician and former head of Guatemala's prison system, Giammattei won the presidency last year on his fourth attempt. Several presidents are scheduled to attend the ceremony, including Honduras' Juan Orlando Hernández, El Salvador's Nayib Bukele and Iván Duque of Colombia. [Editor's note: See related [Q&A](#) in Thursday's issue of the Advisor.]

At Least Three Chinese Automakers Considering Mexico Production: Envoy

At least three Chinese car manufacturers are planning to produce vehicles in Mexico or expand existing operations, Mexican Ambassador to China José Luis Bernal said on Monday, Reuters reported. Bernal said that over the past year and a half, his office has seen growing interest from Chinese firms seeking to make cars in the North American country. The three Chinese companies Bernal mentioned were Changan, electric vehicle producer BYD and Anhui Jianghuai Automobile Co., or JAC, which already has production facilities in Mexico.

AM Best Maintains Negative Outlook for Reinsurance in Brazil

Credit ratings agency AM Best is maintaining its negative outlook for Brazil's reinsurance industry, Reinsurance News reported Monday. Market volatility and a declining interest rate environment in Brazil led to the decision. The reinsurance market in Latin America's largest economy also has high barriers to entry, Reinsurance News reported. However, AM Best said Brazil has the potential to emerge from recent economic and political struggles.

watching how the province's debt is handled as a test case for the country's government bonds. "One simply cannot assess developments in one without directly affecting the other one," Alejo Czerwonko, a strategist at UBS, told the Financial Times. "They are tied at the hip," he said. Argentine President Alberto Fernández confirmed Monday night that the government had no plans to come to the state's aid, MercoPress reported. The bailout has not been contemplated in the national government's budget, he said. "The only culprits are those who destroyed the economy of the province of Buenos Aires," Fernández added, referring to the previous administration.

BUSINESS NEWS

Brazil's Vale Eyes Larger Stake in Aliança Energia

Brazilian mining giant Vale is in talks to take a larger stake in energy generation and trading joint venture Aliança Energia, which it owns with Companhia Energética de Minas Gerais, or Cemig, Valor Econômico reported Tuesday. Vale owns 55 percent of the joint venture, which was set up in 2015, while Cemig has 45 percent. Banco Santander is advising Vale on the potential deal, the newspaper reported. Aliança Energia owns one wind power farm and seven hydroelectric power plants in Brazil. Vale, Santander, Aliança Energia and Cemig did not reply to requests for comment by Reuters.

Chile Regulator Charges ENAP With Improper Fracking

Chile's environmental regulator, known as SMA, on Monday charged state oil company ENAP with improper fracking in Tierra del Fuego, a largely unpopulated region in the southern part of the country, Reuters reported. SMA said ENAP had not followed protocols in its permits

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receive something. The plan is orthodox yet progressive: it seeks a fiscal surplus, but by increasing taxes on the richest sectors. Of course, it can go wrong. In this razor-sharp balance of income distribution with high inflation, a shock in oil prices due to the crisis between the United States and Iran could ruin it all, as happened to Perón with his 1973 social pact."

A **Eduardo Levy-Yeyati, dean of the School of Government at Universidad Torcuato Di Tella and nonresident senior fellow at the Brookings Institution:**

"That early announcement was informal; the details of the government's income policies are yet to be agreed upon. The first ingredients came from the government's side: the resumption of the exchange rate anchor, helped by tight exchange controls, and a temporary freeze on utility rates. This was followed by a new version of limited price controls (*Precios Cuidados*) and a modest one-off bonus for salaried workers to make up for the late-2019 inflation peak and avoid an early backward-looking wage negotiation. True support for it will be tested once the numbers are on the table, including inflation, which has so far exhibited a stronger-than-expected persistence. At any rate, the pact is likely to limit wage increases and, together with the tax and expenditure cuts voted under the Emergency Law, are bound to drag down disposable income. Consumption may nonetheless rebound slightly due to the side effects of exchange rate stability and financial repression (an increase in the demand for durables and real estate as a reserve of value) and to the wealth effect of the parallel

for so-called "hydro-fracking" activities. Three of the six charges the regulator filed are serious enough to cancel the company's "Arenal Project," SMA said. ENAP said the project was an "essential" part of its plans to maintain gas supplies to the area. "For that reason, we view the SMA's ruling with the utmost seriousness," an ENAP spokesman said, Reuters reported.

exchange rate on dollarized savings. The social situation, while critical in a crisis context, is not unmanageable: Argentina, unlike Chile or Colombia, has organized social movements led by professional politicians with strong ties to the Peronist party and the Catholic Church, and the government has made social policy its priority. But support from the middle-class sympathizers may dwindle quickly if inflation and growth in the first semester disappoint."

A **Emilia Cerra, specialist, and Megan Cook, lead specialist, both in the political and regulatory risk/strategic affairs practice at Cefideas Group in Buenos Aires:**

"Fernández's social pact was signed by unions, business chambers and social organizations, and is a largely symbolic measure

 **The pact is nonbinding and unenforceable."**

— Emilia Cerra & Megan Cook

aimed at demonstrating common ground among relevant stakeholders about how to address Argentina's situation. However, the pact is nonbinding and unenforceable. It lacks specific proposals or commitments, and instead serves to signal the focuses of the government's agenda: economic policies aimed at palliating the current situation of the most disadvantaged sectors. Most of the issues in the agreement, including pension and public service tariffs adjustments, employment generation, increasing investment

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"At present, we are analyzing measures to take to ... resolve the aspects brought to light by the SMA in the best way possible." The state oil company has 10 days to submit a compliance plan to SMA, or 15 days to dispute the charges, the regulators said in a statement. Chile, which has few fossil fuels, has long imported gas and oil from abroad.

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in productive development and promoting SMEs and access to credit were part of Fernández's campaign platform. Additionally, some of these were already included in the first major piece of legislation that the government passed: the Law of Solidarity and Productive Development. It has also implemented several policies aligned with the social pact's declarations, including mandating wage increases and revamping the 'Precios Cuidados' program that fixes prices on products included in a basic basket of goods and that was agreed upon with food producers and supermarket chains. The president is confident that his administration has shown muscle to gather the main economic players in the country and portray unity across sectors. He has also claimed that the pact strengthens its position in debt negotiations with the IMF and private creditors as signatories expressed support for the government's approach. In the short term, the prospects for social unrest are low as the government has the support of major unions, the industrial sector and many social movements. However, some important economic sectors, such as agrobusinesses, were absent among the pact's signatories, and some more leftist social organizations are vocally critical of the administration. In the longer term, the government will have to show concrete results to avoid social unrest."

A **Benjamin Gedan, senior advisor to the Latin America program and director of the Argentina Project at the Woodrow Wilson**

Center: "Given Argentina's debt troubles and economic malaise, President Alberto Fernández's attempt to negotiate a 'social pact' is a reasonable short-term approach to kindling economic growth and curbing inflation. The country's powerful unions and oligopolists wield outsize influence, and their coordination, and collaboration with the Casa Rosada, could help address the wage-price spiral that has burdened Argentina with one of the

world's highest inflation rates. Though an agreement would be complicated to cobble together and vexing to preserve, Fernández's Peronist party is close to unions and inclined toward corporatism. There is no question about the new government's commitment. The president has already proposed legis-



This type of economic engineering is not a replacement for budget discipline and responsible, independent central banking."

— Benjamin Gedan

lation to institutionalize the social pact's iterative wrangling over wages and prices. Last weekend, Fernández dispatched cabinet members to patrol supermarket aisles to enforce price controls. Still, this type of economic engineering is not a replacement for budget discipline and responsible, independent central banking. Nor does it lessen the need for structural reforms, including to the labor code, to improve Argentina's competitiveness. That seems obvious to outsiders, but in Argentina, a factory for world-class economists, influential local policymakers are convinced the rules of economics do not apply at home. A commonly cited aphorism is there are four kinds of countries: developed, developing, Japan and Argentina. The failures of the last government's orthodox policies—including austerity and high interest rates—reinforced that perception. As does widespread mistrust of the International Monetary Fund and other beacons of neoliberalism. That has predisposed Argentina, particularly Peronist leaders, to statist improvisation, despite a decidedly spotty record."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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